

FDIC State Profile

Winter 2005

North Dakota

North Dakota's economy paused in its sustained expansion in the third quarter.

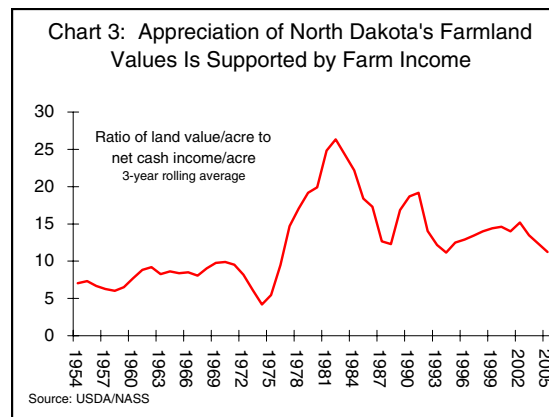
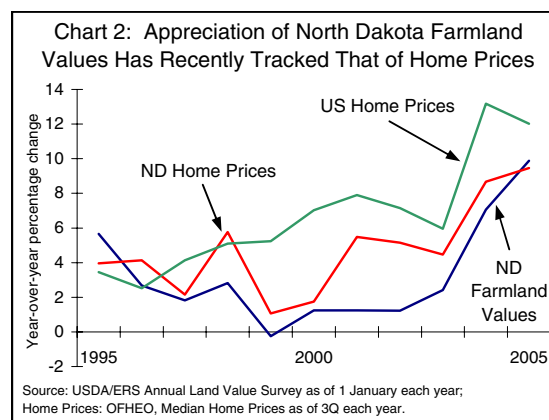
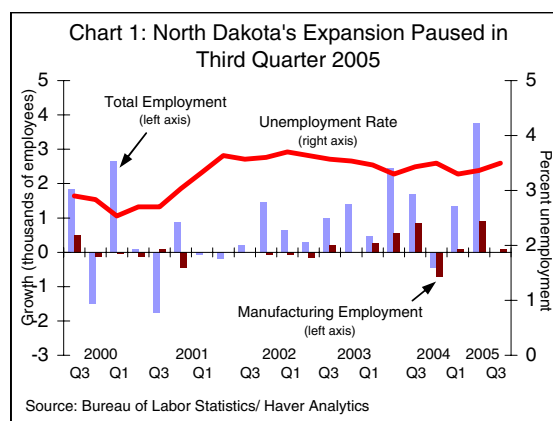
- North Dakota's third quarter total employment remained unchanged from the previous quarter, which was a record high. Still, the number of jobs increased by 5,100 in the first nine months of 2005, already exceeding the gains achieved in all of 2004 (see Chart 1). The improvement in employment was widely distributed across job sectors, with only the information and "other" services industries declining slightly on a year-over-year basis.
- Despite increases in jobs in 2005, North Dakota's unemployment rate increased slightly to 3.5 percent in the third quarter. Despite the slight increase, North Dakota had the third-lowest unemployment rate in the nation in third quarter 2005.

The value of North Dakota farmland surged 9.9 percent in 2005.

- Over the past decade, North Dakota's home prices and farmland values have appreciated less than national home prices (see Chart 2).
- According to the United States Department of Agriculture, North Dakota farmland values increased 9.9 percent to \$500 per acre in 2005. While \$500 is a record for North Dakota farmland value in nominal terms, when adjusted for inflation, the 2005 farmland price was only 60 percent of that achieved in 1980, when farmland values reached historic levels.

North Dakota's farmland values have risen more slowly than net cash farm income in recent years.

- Since the mid-1980s, the ratio of North Dakota's farmland value to net cash farm income (per acre) has varied over a narrow range. From 1990 to 2002, the ratio averaged about 14, implying that farmland value was closely related to the level of cash income produced on the land (see Chart 3). The price-income ratio increased substantially to more than 22 from 1976 to 1984, reflecting the spike in land prices during that period.
- Strong crop yields and high levels of government payments led to solid income from 2004 to 2005. Strong



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income levels more than offset the rapidly increasing land prices and pushed the ratio down to 11, which approximated the historical range.

North Dakota insured institutions report continuing strong operating results, but deposit disintermediation appears to have returned.

- Third quarter earnings performance remained positive. Median net interest margin increased 12 basis points from one year earlier to 4.24 percent and median return on assets increased slightly from one year earlier to 1.31 percent. Additionally, strong loan growth continued. The third quarter 2005 median loan-to-asset ratio increased 1.5 percentage points from the third quarter 2004 to 69.3 percent after increasing 1.1 percentage points during the similar 2003 to 2004 period.
- While institution deposit-to-asset ratios stabilized from 2000 to 2003, coinciding with declining desirability of alternatives to deposits such as stock investments, the resurgence of equities is again causing deposit levels to lag (see Chart 4).

Stronger demographics lead to higher deposit growth rates in North Dakota's metropolitan areas.

- Annual Summary Deposits data as of June 30, 2005, show that deposit growth among community bank branches in North Dakota's metropolitan areas has substantially outpaced the rest of the state over the past five years.¹ Primarily, this is indicative of the growing polarity in North Dakota's population growth (see Table 1).
- Seeking better growth opportunities, an increasing number of nonmetropolitan-based institutions in North Dakota are opening branches in metropolitan areas. In 1995, 5 percent of banks headquartered in nonmetropolitan North Dakota had branches in metro areas. That proportion has steadily increased, registering 8 percent in 2000 and 13 percent in 2005.
- Although branching into metro areas might provide increased deposit growth opportunities for some institutions, it might also subject them to greater direct competition with significantly larger institutions.

Statewide bank branch growth slowed in North Dakota, and large bank control increased as well.

- Bank branch growth in North Dakota slowed during the past year. The number of bank branches increased just 0.2 percent from June 2004 to June 2005 to 422 branches.

- After declining the past two years, control by larger bank organizations—those with combined assets of \$10 billion or more—grew throughout North Dakota in 2005 (see Chart 5).

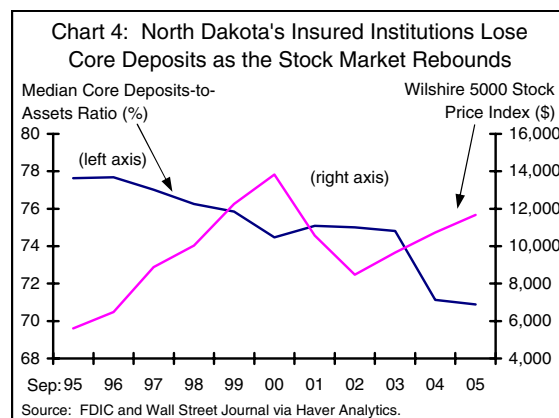
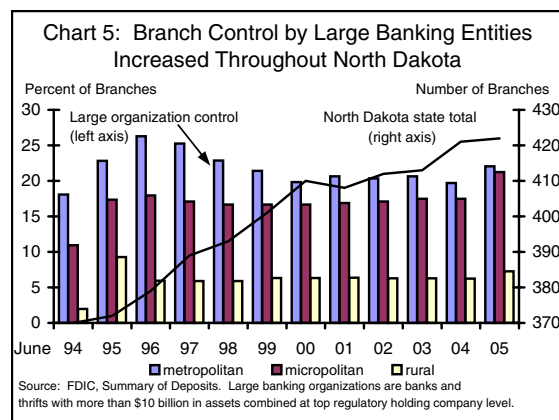


Table 1: Community Bank Deposit Growth Is Stronger in North Dakota's Metropolitan Areas

North Dakota Branch Location	Deposit Growth	Population Growth
Metropolitan	10.8	0.7
Micropolitan	6.8	-0.9
Rural	5.0	-1.2
Statewide	7.1	-0.3

Source: FDIC, U.S. Census Bureau, Community banks in operation since at least 1997. Annualized growth rates: deposits '00-'05, population: '00-'04.



¹For this Profile, the term "branches" includes banking facilities in main offices and branch locations.

North Dakota at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	1.5%	1.7%	1.4%	0.9%
Manufacturing (7%)	1.4%	3.1%	6.0%	4.2%	-0.6%
Other (non-manufacturing) Goods-Producing (6%)	4.1%	3.2%	6.3%	7.3%	5.4%
Private Service-Producing (64%)	1.5%	1.5%	1.6%	1.3%	0.5%
Government (22%)	0.2%	0.7%	-1.0%	-1.0%	1.4%
Unemployment Rate (% of labor force)	3.5	3.4	3.4	3.4	3.6
Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	7.5%	1.0%	2.0%	8.5%
Single-Family Home Permits	9.7%	-25.6%	-12.2%	6.9%	26.4%
Multifamily Building Permits	-64.1%	-19.2%	-6.5%	9.6%	-9.4%
Existing Home Sales	19.3%	7.5%	0.7%	12.4%	4.9%
Home Price Index	9.5%	9.4%	8.7%	7.8%	5.3%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	5.94	4.45	3.30	3.60	3.46

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	99	100	103	103	104
Total Assets (in millions)	16,691	16,181	20,670	15,413	20,762
New Institutions (# < 3 years)	1	1	0	1	0
Subchapter S Institutions	58	58	53	53	49
Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.34	1.72	1.39	1.52	1.75
ALLL/Total Loans (median %)	1.42	1.45	1.47	1.56	1.61
ALLL/Noncurrent Loans (median multiple)	2.29	1.99	2.08	2.69	2.17
Net Loan Losses / Total Loans (median %)	0.01	0.00	0.04	0.07	0.12
Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.30	9.43	9.35	9.60	9.16
Return on Assets (median %)	1.41	1.33	1.29	1.13	1.13
Pretax Return on Assets (median %)	1.73	1.66	1.72	1.48	1.47
Net Interest Margin (median %)	4.38	4.27	4.31	4.15	4.17
Yield on Earning Assets (median %)	6.34	6.07	5.74	5.66	5.94
Cost of Funding Earning Assets (median %)	2.04	1.74	1.53	1.49	1.72
Provisions to Avg. Assets (median %)	0.04	0.08	0.09	0.08	0.13
Noninterest Income to Avg. Assets (median %)	0.47	0.45	0.46	0.50	0.53
Overhead to Avg. Assets (median %)	2.67	2.74	2.67	2.86	2.87
Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	69.3	67.2	67.8	65.6	62.8
Noncore Funding to Assets (median %)	17.4	15.3	17.0	13.6	12.0
Long-term Assets to Assets (median %, call filers)	11.6	12.1	14.2	12.1	13.7
Brokered Deposits (number of institutions)	26	25	26	24	20
Brokered Deposits to Assets (median % for those above)	5.2	5.3	3.1	4.1	1.8
Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	102.7	103.3	98.0	95.3	95.3
Commercial Real Estate	64.4	64.7	57.2	60.6	55.8
<i>Construction & Development</i>	6.2	4.7	4.2	5.1	3.5
<i>Multifamily Residential Real Estate</i>	0.6	0.5	0.3	0.4	0.7
<i>Nonresidential Real Estate</i>	51.5	51.0	52.2	50.4	45.6
Residential Real Estate	44.7	42.1	43.6	44.6	41.8
Consumer	50.5	49.3	55.6	51.3	57.3
Agriculture	327.8	325.4	323.5	310.8	305.3

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Fargo, ND-MN	25	3,412	< \$250 million	87 (87.9%)
Bismarck, ND	14	1,651	\$250 million to \$1 billion	9 (9.1%)
Grand Forks, ND-MN	18	1,422	\$1 billion to \$10 billion	3 (3%)
			> \$10 billion	0 (0%)